

Section 12

Single Audit Reporting

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REQUIREMENTS SURROUNDING THE SINGLE AUDIT

Requirement #1-D (from Section 1): *The organization must be in compliance with all applicable federal, state, and local laws and regulations including laws and regulations regarding government funding policies, IRS regulations regarding an organization's nonprofit tax exempt status, and State of Tennessee regulations regarding registration and annual reporting with the Secretary of State, Division of Charitable Solicitations .*

Entities which expend federal awards totaling \$300,000 or more are required to have an audit conducted in accordance with the provisions of OMB *Circular A-133*. Although the circular deals principally with requirements which are not the responsibility of the auditee, this section summarizes those requirements which are the responsibility of the auditee.

OMB *Circular A-133* requires an audit to be completed and a data collection form and reporting package to be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the federal cognizant or oversight agency for audit. (However, for fiscal years beginning on or before June 30, 1998, the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period.) Unless restricted by law or regulation, the auditee shall make copies available for public inspection.

Reporting Package

The single audit reporting package should include the following information as required by OMB *Circular A-133*, §____.320(c):

- 1) Financial statements and schedule of expenditure of federal awards discussed in A-133, §____.310(a) and §____.310(b), respectively;
[NOTE: The State of Tennessee's requirements for the above schedule exceed the federal requirements.]

- 2) Summary schedule of prior audit findings discussed in *A-133*, §____.315(b);
- 3) Auditor's report(s) discussed in *A-133*, §____.505; and
- 4) Corrective action plan discussed in *A-133*, §____.315(c).

One copy of this reporting package, accompanied by the data collection form discussed in *A-133*, §____.320(b), must be submitted to:

- 1) The federal clearinghouse to retain as an archival copy (The address of the federal clearinghouse currently designated by OMB is Federal Audit Clearinghouse, Bureau of the Census, 1201 East 10th Street, Jeffersonville, IN 47132.); and
- 2) Each federal awarding agency when the schedule of findings and questioned costs disclosed audit findings relating to federal awards that the federal awarding agency provided directly or the summary schedule of prior audit findings reported the status of any audit findings relating to federal awards that the federal awarding agency provided directly.

In addition, one copy of the reporting package should be submitted to each pass-through entity (State of Tennessee, municipality, or other organizations which awarded subgrants of federal funds awarded to another entity) when the schedule of findings and questioned costs disclosed audit findings relating to federal awards that the pass-through entity provided or the summary schedule of prior audit findings reported the status of any audit findings relating to federal awards that the pass-through entity provided.

If the preceding conditions are not met, that is, there are no current or prior year findings related to awards from a pass-through entity, the subrecipient shall:

- 1) provide written notification to the pass-through entity that: an audit of the subrecipient was conducted in accordance with OMB *Circular A-133* (including the period covered by the audit and the name, amount, and CFDA number of the federal award(s) provided by the pass-through entity); the schedule of findings and questioned costs disclosed no audit findings relating to the federal awards(s) that the pass-through entity provided; and, the summary schedule of prior audit findings did not report on the state of any audit findings relating to the federal awards that the pass-through entity provided.

or

- 2) submit a copy of the reporting package to the pass-through entity.

One copy of the data collection form and one copy of the reporting package should be kept on file by the entity for three years from the date of submission to the federal clearinghouse designated by OMB.

Summary Schedule of Prior Audit Findings

The auditee is responsible for follow-up and correction action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. This schedule shall include the reference numbers the auditor assigns to audit findings. In addition, the schedule may include audit findings from multiple years and shall include the fiscal year in which the finding initially occurred.

The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to federal awards. The schedule shall also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected in accordance with item (1) below or no longer valid or not warranting further action in accordance with item (4) below.

- 1) When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
- 2) When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.
- 3) When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation.
- 4) When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:
 - (i) Two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse;
 - (ii) The federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and
 - (iii) A management decision was not issued.

Corrective Action Plan

At the completion of the audit, the auditee shall prepare a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit

findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons. The same finding identification system described for the summary schedule of prior audit findings shall be used.

Data Collection Form

The auditee shall submit a data collection form which states whether the audit was completed in accordance with *A-133* and provides information about the auditee, its federal programs, and the results of the audit. The form shall be approved by OMB, available from the federal clearinghouse designated by OMB, and include data elements similar to those presented in *A-133*, §____.320. A senior level representative of the auditee (e.g., director of finance, chief executive officer, or chief financial officer) shall sign a statement to be included as part of the form certifying that: the auditee complied with the requirements of *A-133*, §____.320, the form was prepared in accordance with *A-133*, §____.320 (and the instructions accompanying the form), and the information included in the form, in its entirety, are accurate and complete.

Source for Current Federal Information

Current copies of OMB *Circular A-133*, the data collection form, federal regulations, etc., may be found at the following Internet site:

www.whitehouse.gov/WH/EOP/OMB/html/ombhome.html

INSTRUCTIONS FOR COMPLETION OF SF-SAC, REPORTING ON AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is OMB No. 0348-0057. The time required to complete this data collection form is estimated to average 30 hours for large auditees (i.e., auditees most likely to administer a large number of Federal awards) and 6 hours for all other auditees. These amounts reflect estimates of reporting burden on both auditees and auditors relating to the data collection form, including the time to review instructions, obtain the needed data, and complete and review the information collection.

Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires non-Federal entities that expend \$300,000 or more in a year in Federal awards to have an audit conducted in accordance with the Circular.

Circular A-133 (§ 320(b)) requires auditees to submit a data collection form, along with other specified reports, to the Federal clearinghouse designated by OMB (currently the U.S. Bureau of the Census) at the completion of each audit.

SUBMISSION TO FEDERAL CLEARINGHOUSE

The data collection form must be completely filled out and signed by both the auditee and auditor. **Submission of anything other than a complete data collection form and reporting package as required by Circular A-133 will be returned to the auditee.**

DESCRIPTION OF THE DATA COLLECTION FORM ITEMS

PART I - GENERAL INFORMATION

The auditee shall complete this section, except for Item 7, and sign the certification statement provided in Item 6 (g).

• Item 1 - Fiscal Year Ending Date

Enter the last day of the entity's fiscal period covered by the audit.

• Item 2 - Type of Circular A-133 Audit

Check the appropriate box. § 200 of Circular A-133 requires non-Federal entities that expend \$300,000 or more in a year in Federal awards to have a single audit conducted in accordance with § 500, except when they elect to have a program-specific audit conducted in accordance with § 235.

• Item 3 - Audit Period Covered

Check the appropriate box. Annual audits cover 12 months and Biennial audits cover 24 months. If the audit period covered is neither Annual nor Biennial, mark "Other" and provide the number of months covered in the space provided.

• Item 4 - Date Received by Federal Clearinghouse

Federal Government use only.

• Item 5 - Employer Identification Number (EIN)

(a) Auditee EIN

Enter the auditee Employer Identification Number (EIN), which is the Taxpayer Identification Number assigned by the Internal Revenue Service (IRS). Also, using the spaces provided, enter the EIN on the top of each page.

(b) Multiple EINs Covered in the Report

Check the appropriate box to indicate whether the auditee (or components of an auditee covered by the audit) was assigned more than one EIN by the IRS. (Example: A State-wide audit covers many departments, each of which may have its own separate EIN.) If yes, indicate principal EIN under 5 (a).

• Item 6 - Auditee Information

(g) A senior representative of the auditee (e.g., State controller, director of finance, chief executive officer, chief financial officer) shall sign a statement that the information in the form is accurate and complete as required by § 320 of Circular A-133. Provide the name and title of the signatory and date of signature.

• Item 7 - Auditor Information

The auditor shall complete this item.

(a) Enter the name of the auditor that conducted the audit in accordance with Circular A-133. The auditor name may represent a sole practitioner, certified public accounting firm, State auditor, etc. Where multiple auditors or audit organizations are used to conduct the audit work, the auditors should use judgment in determining which auditor's name should be provided in Item 7. The auditor listed in Part I, Item 7 (a) shall be the same auditor that signs the auditor statement in Part I, Item 7 (g) of this form.

• Item 8 - Cognizant or Oversight Agency for Audit

Check the appropriate box. Each auditee has either a Federal cognizant agency for audit or an oversight agency for audit, determined in accordance with § 400(a) or (b) of Circular A-133.

• Item 9 - Name of Federal Cognizant or Oversight Agency for Audit

Check the appropriate box to indicate the name of the Federal cognizant or oversight agency for audit determined in accordance with § 400(a) or (b) of Circular A-133.

PART II - FINANCIAL STATEMENTS

The auditor shall complete this section of the form.

INSTRUCTIONS FOR COMPLETION OF SF-SAC, REPORTING ON AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS - Continued

PART III - FEDERAL PROGRAMS

The auditor shall complete this section of the form.

Item 1 - Type of Audit Report on Major Program Compliance

If the audit report for one or more major programs is other than unqualified, check boxes 2, 3, or 4, as applicable. For example, if the audit report on major program compliance for an auditee with three major programs includes an unqualified opinion for one program, a qualified opinion for the second program, and a disclaimer of opinion for the third program, then check boxes 2 and 4 but not box 1.

Item 2 - Dollar Threshold to Distinguish Between Type A and Type B Programs

Enter the dollar threshold used to distinguish between Type A and Type B programs as defined in § 520(b) of Circular A-133.

Item 3 - Low-Risk Auditee

Indicate whether or not the auditee qualifies as a low-risk auditee under § 530 of Circular A-133.

Item 4 - Audit Findings

Indicate whether or not the audit disclosed any audit findings which the auditor is required to report under § 510(a) of Circular A-133.

Item 5 - Federal Agencies Required to Receive the Reporting Package

Check the appropriate box to indicate each Federal awarding agency required to receive a copy of the reporting package pursuant to § 320(d) of Circular A-133. If no Federal awarding agency is required to receive a copy of the reporting package, mark "None."

Item 6 - Federal Awards Expended

The information to complete columns (a), (b), and (c) shall be obtained from the Schedule of Expenditures of Federal Awards prepared by the auditee. It is important to note that Item 6 shall include the required information for each Federal program presented in the Schedule of Expenditures of Federal Awards (and notes thereto), i.e., not only Federal programs for which audit findings and questioned costs are reported. If additional space is required, photocopy page 3 and attach the additional page(s) to the form.

Column (a) - CFDA Number

Enter the number assigned to a Federal program in the Catalog of Federal Domestic Assistance (CFDA) or other identifying number when the CFDA information is not available. If the CFDA information is not available, enter the identifying number provided by the Federal awarding agency or pass-through entity. Individual programs within a cluster of programs shall be listed in the same level of detail as they are listed in the Schedule of Expenditures of Federal Awards.

Column (b) - Name of Federal Program

Enter the name of the Federal program. If no CFDA number is provided in column (a), enter the name of the Federal program and the Federal awarding agency or pass-through entity that provided the Federal award.

Column (c) - Amount of Federal Expenditures

Enter the amount of expenditures included in the Schedule of Expenditures of Federal Awards for each Federal program. It is important to note that amounts shall be provided for the value of Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end, regardless of whether such amounts were presented in the Schedule of Expenditures of Federal Awards or in a note to the Schedule.

If additional space is required, photocopy page 3, attach additional page(s) to the form, and enter the total for all pages in the "Total Federal Awards Expended" block on the last page.

Item 7 - Audit Findings and Questioned Costs

The information to complete columns (a), (b), (c), (d) and (e) shall be obtained from the Schedule of Findings and Questioned Costs prepared by the auditor. Audit findings and questioned costs that relate to more than one Federal program shall be presented in the form for each Federal program for which audit findings and questioned costs are reported in the auditor's Schedule of Findings and Questioned Costs. If additional space is required, photocopy page 3 and attach the additional page(s) to the form.

Column (a) - Major Program

Indicate whether or not the Federal program is a major program, as defined in § 520 of Circular A-133.

Column (b) - Type of Compliance Requirement

Using the list provided on the form, enter the letter that corresponds to the type(s) of compliance requirements applicable to the audit findings and questioned costs reported for each Federal program. Mark all that apply or "None."

Column (c) - Questioned Costs

Enter the amount of reported questioned costs by Federal program. If no questioned costs were reported, enter N/A for "Not Applicable."

Column (d) - Internal Control Findings

Check the appropriate box, using the list provided on the form, that corresponds to the internal control findings that apply to the Federal program. Mark all that apply or "None reported."

Column (e) - Audit Finding Reference Numbers

Enter the audit finding reference number(s) for audit findings included in the Schedule of Findings and Questioned Costs. If no audit finding reference numbers exist, enter N/A for "Not Applicable."

EIN:

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GENERAL INFORMATION - Continued**8. Indicate whether the auditee has either a Federal cognizant or oversight agency for audit. (Mark (X) one box)**1 ☐ Cognizant agency 2 ☐ Oversight agency**9. Name of Federal cognizant or oversight agency for audit (Mark (X) one box)**

- | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> 01 African Development Foundation
<input type="checkbox"/> 02 Agency for International Development
<input type="checkbox"/> 10 Agriculture
<input type="checkbox"/> 13 Commerce
<input type="checkbox"/> 34 Corporation for National and Community Service
<input type="checkbox"/> 12 Defense
<input type="checkbox"/> 04 Education
<input type="checkbox"/> 01 Energy
<input type="checkbox"/> 05 Environmental Protection Agency | <input type="checkbox"/> 03 Federal Emergency Management Agency
<input type="checkbox"/> 34 Federal Mediation and Conciliation Service
<input type="checkbox"/> 38 General Services Administration
<input type="checkbox"/> 02 Health and Human Services
<input type="checkbox"/> 14 Housing and Urban Development
<input type="checkbox"/> 03 Institute for Museum Services
<input type="checkbox"/> 04 Inter-American Foundation
<input type="checkbox"/> 15 Interior | <input type="checkbox"/> 16 Justice
<input type="checkbox"/> 17 Labor
<input type="checkbox"/> 43 National Aeronautics and Space Administration
<input type="checkbox"/> 08 National Archives and Records Administration
<input type="checkbox"/> 06 National Endowment for the Arts
<input type="checkbox"/> 06 National Endowment for the Humanities
<input type="checkbox"/> 47 National Science Foundation
<input type="checkbox"/> 07 Office of National Drug Control Policy | <input type="checkbox"/> 09 Peace Corps
<input type="checkbox"/> 58 Small Business Administration
<input type="checkbox"/> 06 Social Security Administration
<input type="checkbox"/> 19 State
<input type="checkbox"/> 20 Transportation
<input type="checkbox"/> 21 Treasury
<input type="checkbox"/> 02 United States Information Agency
<input type="checkbox"/> 64 Veterans Affairs
<input type="checkbox"/> Other - Specify: |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

FINANCIAL STATEMENTS (To be completed by auditor)**1. Type of audit report (Mark (X) one box)**1 ☐ Unqualified opinion 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion**2. Is a "going concern" explanatory paragraph included in the audit report?**1 ☐ Yes 2 ☐ No**3. Is a reportable condition disclosed?**1 ☐ Yes 2 ☐ No - SKIP to Item 5**4. Is any reportable condition reported as a material weakness?**1 ☐ Yes 2 ☐ No**5. Is a material noncompliance disclosed?**1 ☐ Yes 2 ☐ No**FEDERAL PROGRAMS (To be completed by auditor)****1. Type of audit report on major program compliance**1 ☐ Unqualified opinion 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion**2. What is the dollar threshold to distinguish Type A and Type B programs § 520(b)?**

\$

3. Did the auditee qualify as a low-risk auditee (§ 530)?1 ☐ Yes 2 ☐ No**4. Are there any audit findings required to be reported under § 510(a)?**1 ☐ Yes 2 ☐ No**5. Which Federal Agencies are required to receive the reporting package? (Mark (X) all that apply)**

- | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> 01 African Development Foundation
<input type="checkbox"/> 02 Agency for International Development
<input type="checkbox"/> 10 Agriculture
<input type="checkbox"/> 11 Commerce
<input type="checkbox"/> 34 Corporation for National and Community Service
<input type="checkbox"/> 12 Defense
<input type="checkbox"/> 04 Education
<input type="checkbox"/> 01 Energy
<input type="checkbox"/> 05 Environmental Protection Agency | <input type="checkbox"/> 03 Federal Emergency Management Agency
<input type="checkbox"/> 34 Federal Mediation and Conciliation Service
<input type="checkbox"/> 38 General Services Administration
<input type="checkbox"/> 02 Health and Human Services
<input type="checkbox"/> 14 Housing and Urban Development
<input type="checkbox"/> 03 Institute for Museum Services
<input type="checkbox"/> 04 Inter-American Foundation
<input type="checkbox"/> 15 Interior | <input type="checkbox"/> 16 Justice
<input type="checkbox"/> 17 Labor
<input type="checkbox"/> 43 National Aeronautics and Space Administration
<input type="checkbox"/> 08 National Archives and Records Administration
<input type="checkbox"/> 06 National Endowment for the Arts
<input type="checkbox"/> 06 National Endowment for the Humanities
<input type="checkbox"/> 47 National Science Foundation
<input type="checkbox"/> 07 Office of National Drug Control Policy | <input type="checkbox"/> 09 Peace Corps
<input type="checkbox"/> 58 Small Business Administration
<input type="checkbox"/> 06 Social Security Administration
<input type="checkbox"/> 19 State
<input type="checkbox"/> 20 Transportation
<input type="checkbox"/> 21 Treasury
<input type="checkbox"/> 02 United States Information Agency
<input type="checkbox"/> 64 Veterans Affairs
<input type="checkbox"/> 00 None
<input type="checkbox"/> Other - Specify: |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

8. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR

TOTAL FEDERAL AWARDS EXPENDED: +

A. Material weaknesses

Section 13

Some Questions and Answers

How should we account for pledges receivable & grants receivable?	13-1
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How do we account for donated services & use of facilities?	13-3
How should we classify and report donated fixed assets?	13-4
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1. How should we account for pledges receivable and grants receivable?

Show pledges receivable and grants receivable as income for the year in which they are received.

Pledges receivable (1050) and grants receivable (1070) are two asset accounts that help distinguish statements of financial position (balance sheets) of not-for-profit organizations from those of business enterprises. Pledges receivable are contributions receivable from individual donors (i.e., firm promises to give, in writing). Grants receivables are firm contribution commitments, in writing, from institutional supporters such as corporations, foundations, United Ways, churches, and government agencies.

Based on experience, you may designate a percentage of total pledges from individuals as an allowance for uncollectibles. Asset account number 1060 and revenue account number 4080-xxx are used for allowances for doubtful pledges, usually where a number of small to mid-size pledges are involved. Grant commitments from institutional supporters are seldom uncollectible so an allowance is not generally needed.

Here is an example of how you would record total pledge receivables as of the end of your fiscal year. Assume that 50 individual donors pledged \$5,000 during the period, pledges

are substantially collected during the following fiscal year, and past experience indicates that 4 percent of pledges are not collected.

	<u>Debit</u>	<u>Credit</u>
Year-end adjusting entries:		
1050 Pledges receivable	\$5,000	
4010-510 Contributions - pledges		\$5,000
1060 Allowance for doubtful pledges		200
4080-510 Estimated uncollectible pledges	200	
Year-end closing entries:		
3010 Unrestricted net assets		5,000
4010-510 Contributions	5,000	
3010 Unrestricted net assets	200	
4080-510 Estimated uncollectible pledges		200

2. **What are “net assets?”**

For nonprofit organizations, the excess of assets over liabilities is known as “net assets” (formerly called fund balances). Terminology for the various net asset accounts varies. Refer to Section 8 for a comprehensive discussion of net assets and a sample Statement of Financial Position, (formerly called Balance Sheet). For-profit organizations refer to the excess of assets over liabilities as “equity” and “net worth.”

3. **When are donor-restricted contributions recognized in your Statement of Activities?**

In the past, many organizations did not recognize donor-restricted contributions as income until the restriction had been met and the money earned. Donor-restricted contributions should now be reported as temporarily-restricted contributed income (a) when the contributions are received and (b) when a firm restricted-contribution commitment has been made.

4. **What is “unearned revenue?”**

Revenue from fees and dues can be received before related products and services have been provided to the payee (refer to revenue line items 5010 to 5120 in the Chart of Accounts, Section 3). For example, dues payments may cover a dues period that extends into the next reporting period (i.e., next fiscal year). In such cases, the portion of the dues applicable to the next period is deferred and reported as unearned and deferred revenue liability (account number 2310 in the chart of accounts) and is recognized as revenue only when earned. Funds received from your grantor that have not been earned should be reported as unearned grantor revenue.

5. **How do we account for donated materials (gifts in kind)?**

Account for donated materials at their fair market value when received. Be sure to document the basis for your valuations. IRS does allow NPOs to include donated materials as revenue on the IRS Form 990 (refer to Part I, Line 1d, related instructions).

Donated materials (i.e., gifts in kind) are recorded as contributed income under gifts in kind (account number 4110-xxx in the chart of accounts), and are recorded as assets in inventories for sale (1120) or use (1121). Donated materials are not recorded separately from purchased materials in the asset accounts for inventories or in the net asset accounts.

Here is an example: Assume that you received donated supplies valued at \$10,000 during the year, and at year's end, unused donated supplies amounted to \$1,500. Make the following entries to record the receipt, use, and unused portion of donated supplies.

	<u>Debit</u>	<u>Credit</u>
Example of monthly general ledger G/L entries when donated supplies are received:		
1120 Inventories for use	\$10,000	
4110-510 Other gifts in kind		\$10,000

Example of monthly G/L entries when \$500 of the supplies are used during a month:

1120 Inventories for use		500
7710-510 Supplies - management & general	50	
7710-100 Supplies - program A, unrestricted	50	
7710-120 Supplies - program A, contract #101	250	
7710-420 Supplies - program D, grant #204	150	

Examples of year-end closing entries:

3010 Unrestricted net assets		10,000
4110-510 Other gifts in kind	10,000	
3010 Unrestricted net assets	8,500	
7710-510 Supplies		8,500

6. **How do we account for donated services and use of facilities?**

This will vary according to the nature of the report you are preparing.

The FASB standards now require you to report donated use of facilities in your GAAP reports.

In addition, services donated by volunteers are to be reported, if either of two criteria is met: (1) the service creates or enhances nonfinancial assets (e.g., painting a room or a

building), or (2) the service requires special skills, is provided by persons with these skills, and otherwise would have to be purchased by the recipient. If neither of the criteria *is* met, **do not** report the value of the service as revenue in GAAP reports.

Note, however, that grantors may define more broadly the donated services you may include as matching contributions for a specific grant. Many grantors will accept as matching funds the value of services that would not be reportable in your GAAP financial statements.

Still another point to note: The IRS does not allow NPOs to include their donated services and use of facilities as revenue on the IRS Form 990 statement of activities (Part I) or as expenses in the statement of functional expenses (Part II). IRS does allow these types of donations to be reported in special sections of the form (i.e., Part III and Line 82).

Remember that when a grantor allows donated services and use of facilities to qualify as all or part of matching contributions, the donated services must be a necessary and integral part of the grant program. Value the services at the same rate as similar work performed by your staff. If the services are not similar to any work performed by the staff, value them at a rate consistent with what is paid for similar work in the labor market in which your NPO operates. Donated services provided by other organizations should be valued at the service donor's regular rate. Document and support your treatment of donated services in the same manner as you would the services of regular employees.

7. **How should we classify and report donated fixed assets?**

Record all donated fixed assets at their fair market value as of the date of the gift. The nature of donor restrictions, if any, determines whether the assets are categorized as temporarily restricted, permanently restricted, or unrestricted.

Following are examples of the account treatment for donated fixed assets without donor-imposed restrictions.

Assume two items of equipment are donated to your NPO by corporate supporters. Item A had a fair market value of \$12,000 at the date of the gift. Item B had a fair market value of \$15,000. You decide to use item A in your operations and to sell item B to generate income. Both items have useful lives of 10 years, and your NPO calculates depreciation on such equipment using the straight-line method, with no anticipated salvage value. Make the following entries.

	<u>Debit</u>	<u>Credit</u>
To record item A as an in-kind contribution for use in normal operations:		
Monthly general ledger G/L entries:		
1660 Furniture, fixtures, & equipment	\$12,000	
4110-510 Other gifts in kind		\$12,000
Year-end closing entries:		
3240 Unrestricted net assets - furniture & equipment		12,000
4110-510 Other gifts in kind	12,000	
1670 Accumulated depreciation for #1660		1,200
8650-920 Depreciation - common cost pool	1,200	
3240 Unrestricted net assets - furniture & equipment	1,200	
8650-920 Depreciation - common cost pool		1,200

Because depreciation is considered a cost to your NPO, depreciation of fixed assets, including donated fixed assets, should be included as an object category in expenses in your general ledger, reported as a separate item in your matrix statement of functional expenses (if you prepare one), and reflected in the costs shown in your statement of activity. Do not, however, record depreciation for fixed assets held for resale.

	<u>Debit</u>	<u>Credit</u>
To record item B as an in-kind contribution valued at \$15,000 that was later sold for \$13,500:		
Monthly G/L entries for receipt:		
1120 Inventories for sale	\$15,000	
4110-510 Other gifts in kind		\$15,000
Monthly G/L entries for sale:		
1120 Inventories for sale		13,500
1010 Cash in bank - operating	13,500	
1120 Inventories for sale		1,500
9300-510 Other expenses - loss on sale of equipment	1,500	
Year-end closing entries:		
3010 Unrestricted net assets		15,000
4110-510 Other gifts in kind	15,000	
3010 Unrestricted net assets	1,500	
9300-510 Other expenses - loss on sale of equipment		1,500

Note: As pointed out, depreciation is recorded only on equipment used in the operation of the NPO. Equipment held for sale is not depreciated.

8. How should we classify net assets related to fixed assets?

In the asset section of a statement of financial position, fixed assets are usually classified as land, buildings, and equipment. Fixed assets are also reflected in the aggregate in the appropriate net asset category--unrestricted, temporarily restricted, or permanently restricted as follows:

- a) Record as unrestricted all net assets representing fixed assets that do not involve donor-imposed restrictions. For example, fixed assets purchased with unrestricted funds are classified as unrestricted, and recorded at cost.
- b) Record as temporarily restricted those net assets representing fixed assets that involve donor-imposed temporary restrictions. When an organization has adopted an accounting policy of implying time restrictions in the use of contributed fixed assets, related net assets are recorded as temporarily restricted. When such restrictions expire, transfer the net assets related to those fixed assets to unrestricted net assets.
- c) Record as permanently restricted those net assets representing fixed assets that involve donor-imposed permanent restrictions.

9. How do we record and protect property, plant, and equipment (fixed assets)?

Maintain fixed asset records and include for each item a description of the property; serial number or other identification number; acquisition cost and date; percentage of state or federal funds used in the purchase; location, use and condition of property; and ultimate disposition date, if applicable.

Inventory fixed assets periodically. Compare the results of the physical inventory with the property records and investigate any differences. Adjust the property records to reflect the results of the physical inventory and subsequent investigation.

Also, adjust the general ledger to reflect these changes, and adjust the subsidiary ledger, if you have one for fixed assets. The following amounts must always agree:

Physical Inventory = Property Records = General Ledger Fixed Asset Accounts

Tag property and equipment to identify each as your organization's property.

Also, certain grantors may require that you maintain records on sensitive minor equipment. The Tennessee Department of Human Services defines sensitive equipment as follows:

Certain items costing less than \$500 have been identified as sensitive minor equipment. Because these items may be personally desirable and easily moved from one location to another, they must be maintained on the property inventory to safeguard them. Sensitive minor equipment includes, but is not limited to, cameras, calculators, movie projectors, computers, and fire extinguishers.

10. How do we record interest income?

During the fiscal year, you will normally record interest income in your general ledger when you know the amount of interest earned. To comply with the rules of accrual accounting, be sure that the amount of interest income reported in your financial statements includes only interest for the period being reported on. Any interest earned and reported as accrued interest in the preceding period but collected during the current period should NOT be reported as interest income in the current period's financial statements. Interest that has been earned during the current period but that will be received in the subsequent period SHOULD be reported as accrued interest income in the current period's financial statements.

Consult grantor guidelines as to whether your NPO may retain interest on grant money and, if so, whether there are any restrictions on the use of such interest. Each grantor's guidelines can vary concerning the use, or return of, interest or other investment income from a grant.

11. How should we establish and manage petty cash funds?

Estimate the amount of cash needed for small, incidental outlays during a short period, usually not more than a month. Issue a check from the operating account for an amount slightly in excess of estimated need made payable to the member of the office staff designated petty cash custodian. The custodian cashes the check, makes payments from the fund, and is responsible for it.

When cash is needed, the person who is to receive the money signs a petty cash receipt, and the receipt is placed with the remaining money in the cash box. After the purchase is made, the sales receipt and any change are returned to the custodian who places both in the cash box and removes the original signed receipts. Under this system, the petty cash box always contains a combination of signed petty cash receipts, sales receipts, and cash. Together they should equal the total amount of the petty cash fund.

Forward sales receipts promptly to the accountant or accounting department along with a request for reimbursement. The accounting department records the transaction and issues a check to the custodian of the fund. The custodian cashes the check and replenishes the fund.

12. **How many bank accounts for “cash” should we have?**

Normally, two--one for general operations and one for payroll.

Refer to account numbers 1010 and 1011 in the Chart of Accounts, Section 3. Deposit all cash receipts in the operating account and show all cash disbursements, other than payroll, as withdrawn from the operating account. The payroll account should maintain a constant balance, of which the optimum is zero. When payroll checks are issued, deposit cash from the operating account in the payroll account.

“Cash” includes money or any medium of exchange that a bank will accept at face value for deposit. It includes coins, currency, checks, and postal and bank money orders.

13. **What are the regulations regarding FDIC insurance and safeguarding of government grant funds?**

Banks **will** collateralize funds for nonprofit agencies; however, FDIC will **not** honor collateral agreements with nonprofit organizations. To safeguard assets, have no more than \$100,000 in any separately chartered bank at any one time.

14. **How should we account for investments?**

Record all purchased investments at cost at the time of purchase, including brokerage fees, taxes, and other charges directly related to the purchase. Record donated investments at their fair market value at the date of the gift. If a donor has specified that the principal of a donated investment may never be used for general purposes, record it as a permanently restricted contribution, as a permanently restricted investment asset, and as a permanently restricted net asset. Such gifts are usually for endowment.

Carry your investments at market value, not at cost. FASB has stated that, since investments are to be shown at market value as of the date of each financial report, the unrealized appreciation or depreciation must be separately identified and reported. Because a number of questions have been raised about this ruling, you may wish to consult with our auditor as to the appropriate method and time for doing this.

Unless a donor’s restriction or an applicable law states that the appreciated value of restricted investments (endowment) must be retained, appreciation is treated as unrestricted.

15. **When should we disclose related-party transactions?**

Related-party transactions between your NPO and members of its governing board, officers, or employees must be disclosed in the notes of GAAP financial statements if both parties receive economic benefits from the transactions.

16. **Do we show funds held in trust by others, and if so, how?**

Funds held in trust by others should be reported in your statement of financial position as an asset line item: Funds Held in Trust by Others (refer to asset account number 1810 in the chart of accounts), even if they (1) are held in trust by others under a legal trust instrument created by a donor independent of the NPO and (2) are neither in the possession nor control of the NPO but are held by outside agents--and the NPO receives income from such funds. Significant income from such sources should also be reported separately in the statement of activities.

17. **How should NPOs, that are grantors, report grants?**

NPOs that make grants to others should record the grants as expenses and liabilities at the time the recipients are entitled to them. Grants payable in future periods should be recorded as liabilities (account number 2210 in the chart of accounts) and expense (account number 7010-xxx in the chart of accounts) when the grants are awarded if they require only routine performance and if they do not require subsequent review and approval. If the NPO reserves the right to revoke the grant, however, the unpaid grant should not be recorded.

Grants that are to be renewed periodically should be recorded as expense and liabilities when renewed. A note to the financial statements should disclose the remaining commitment.

Section 14

Examples of Bookkeeping Entries

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Note: These examples use general ledger accounts that are based on the chart of accounts in Section 3.

1. Entering cash transactions in the general ledger

Record cash activity in the general ledger's asset account number 1010, *Cash in bank-operating*, for corresponding activities that have occurred in the checking account.

Example 1a-Simple Cash Deposit

Here is an example of how you would record cash receipts in the general ledger at the end of the month. Assume that one day's cash receipt deposits totaled \$5,500 consisting of:

- a) unrestricted cash contributions of \$1,500 (i.e., currency, checks, etc.) from individuals (account number 4010-510),
- b) a \$2,500 temporarily-restricted grant from a foundation for program D, grant number 204, activity code 420 (account number 4230-420),
- c) program-related sales of \$200 from inventory (account number 5040-510), and
- d) program service fees of \$1,300 for program B (account number 5060-200).

	<u>Debit</u>	<u>Credit</u>
General ledger (G/L) entries for one day's cash receipts:		
1010 Cash in bank-operating	\$5,500	
4010-510 Contributions-from individuals		\$1,500
4230-420 Foundation & trust grants		2,500
5040-510 Sales to public/program related inventory		200
5060-200 Other program service fees		1,300

Example 1b - Cash Deposit with an Accounts Receivable Payment

Here is how example 1a above would be if \$400 of the \$1,300 in program service fees was a payment of an accounts receivable that you had accrued in the general ledger at the end of the last fiscal year.

	<u>Debit</u>	<u>Credit</u>
General ledger (G/L) entries:		
1010 Cash in bank - operating	\$5,500	
4010-510 Contributions - from individuals		\$1,500
4230-420 Foundation & trust grants		2,500
5040-510 Sales to public/program related inventory		200
5060-200 Other program service fees		900
1030 Accounts receivable		400

Example 1c - Simple Cash Expenditure

Here is an example of how you would record cash expenditures in the general ledger at the end of the month. Assume that your NPO issued a \$700 check for supplies. Assume the \$700 is charged directly or allocated on some basis to four general ledger accounts for four different activities.

	<u>Debit</u>	<u>Credit</u>
General ledger (G/L) entries:		
1010 Cash in bank - operating		\$700
7710-510 Supplies - management & general	\$ 75	
7710-100 Supplies - program A, unrestricted	150	
7710-120 Supplies - program A, contract #101	300	
7710-420 Supplies - program D, grant #201	175	

Example 1d - Cash Expenditure for an Accounts Payable Payment

Here is now example 1c above would be if the \$700 check for supplies was a payment of an accounts payable that you had accrued in the general ledger at the end of the last fiscal year.

	<u>Debit</u>	<u>Credit</u>
General ledger (G/L) entries:		
1010 Cash in bank - operating		\$700
2010 Accounts payable	\$700	

See example for entries for recording accounts payable when the obligation is incurred rather than when paid.

2. Entering petty cash transactions in the general ledger

Example 2 - Recording Disbursements to Petty Cash

Here is an example of how you would record disbursements to petty cash in the general ledger at the end of the month. Assume that management has determined that a \$25 petty cash account will be enough to cover incidental disbursements each month and that \$18.60 was disbursed during the month for supplies and transportation. Therefore, a check to petty cash is prepared for \$18.60 to bring the balance in the petty cash account balance back up to \$25. The petty cash asset account number is 1018.

	<u>Debit</u>	<u>Credit</u>
General ledger (G/L) entries charging disbursements to expenses:		
1018 Petty cash		\$18.60
7710-510 Supplies - management & general	\$ 8.60	
8310-510 Travel - management & general	10.00	
 General ledger (G/L) entries disbursing cash to petty cash:		
1010 Cash in bank - operating		\$18.60
1018 Petty cash	\$18.60	

Note: When using cash-based accounting and accrual-based reporting, the following end of the period entries are made directly to the adjusted trial balance used to prepare the reports. When using accrual-based accounting, the entries are made directly to the general ledger (or subsidiary ledger, if applicable).

3. Recording accounts receivable transactions

Accounts receivable are those receivables related to program service fees, dues, investment income, and other earned income not classified as contributed income (pledge receivables and grant receivables are the two asset accounts related to contributed income). Accounts receivable are recorded in asset account number 1030.

Based on experience, you may designate a percentage of accounts receivable as an allowance for uncollectibles. Asset account number 1040 is used for allowances for doubtful accounts.

Example 3 - Recording Accounts Receivable

Here is an example of how you would record accounts receivable as of the end of a period. Assume that \$3,600 of program service fee receivables were accumulated by Program A during the period, and past experience indicates that five percent of such receivables are not collected.

	<u>Debit</u>	<u>Credit</u>
Adjusting entries:		
1030 Accounts receivable	\$3,600	
5060-100 Service fees earned by Program A		\$3,600
1040 Allowance for doubtful accounts		180
5070-100 Estimated uncollectible service fees	180	
Closing entries:		
3010 Unrestricted net assets		3,600
5060-100 Services fees earned by Program A	3,600	
3010 Unrestricted net assets	180	
5070-100 Estimated uncollectible service fees		180

See example 1b for an example of a cash deposit with an accounts receivable payment.

4. Recording prepaid expense transactions

Insurance and rent are examples of expense items that are commonly paid in advance of incurring the liability. In financial statements, prepaid expenses are reported as assets on the statement of financial position (balance sheet).

Initially, record expenses that include prepaid items in the cash disbursements journal as current period expenses. At the cutoff date, record as an asset in general ledger account number 1130, *Prepaid expenses and deferred charges*, the portion of an expense that relates to periods subsequent to the cutoff date. Charge (i.e., debit) the related expense account for the current period amount.

Example 4 - Recording Prepaid Rent

A check for \$3,000 is sent to the landlord for three months rent (June, July, August) on 6/1/X1. The rent is due on the first of the month. On 6/30/X1, \$1,000 is the current month occupancy expense and \$2,000 is a prepaid expense.

	<u>Debit</u>	<u>Credit</u>
6/30/X1 end of month general ledger (G/L) entries to record the cash disbursement on 6/1/X1:		
1010 Cash in bank - operating		\$3,000
1130 Prepaid expenses and deferred charges	\$2,000	
8090-920 Common cost pool - occupancy	1,000	
7/31/X1 end of next month adjusting entries:		
1130 Prepaid expenses and deferred charges		1,000
8010-920 Common cost pool - occupancy	1,000	

5. Recording inventory transactions

Purchases of inventory (e.g., supplies, parts, food items) are recorded as an asset in general ledger account number 1120, *Inventories for sale*, and account number 1121, *Inventories for use*. Charge (i.e., debit) the related expense account for the amount of inventory sold or used during the current month.

Example 5 - Recording a Purchase of Publications for Resale

On 6/15/X1, a check for \$4,000 is disbursed to a publisher for 2,000 copies of a program-related publication to be sold for \$5 per copy. During the current month (June), 150 copies were sold at \$5 per copy for total sales of \$750. At \$2 per copy, the cost of sales was \$300. During the next month (July), 200 copies were sold at \$5 per copy for total sales of \$1,000. At \$2 per copy, the cost of sales was \$400.

	<u>Debit</u>	<u>Credit</u>
6/30/X1 end of month general ledger G/L entries to record the cash disbursement on 6/15/X1:		
1010 Cash in bank - operating		\$4,000
1120 Inventories for sale	\$4,000	
6/30/X1 end of month G/L entries to record the cash receipts for sales of 150 publications:		
1010 Cash in bank - operating	750	
5040-200 Program B's sales to public		750
7/31/X1 end of next month adjusting G/L entries to record the cash receipts for sales of 200 publications:		
1010 Cash in bank - operating	\$1,000	
5040-200 Program B's sales to public		\$1,000
6/30/X1 end of month G/L entries to record the cost of sales for 150 publications:		
1120 Inventories for sale		300
8220-200 Publication cost - Program B	300	

1120 Inventories for sale	400
8220-200 Publication cost - Program B	400

6. Recording accounts payable transactions

Accounts payable (liability account number 2010) are normally amounts owed to suppliers for goods or services that have been received but not paid for. Most accounts payable result from purchase of merchandise, supplies, equipment, or services on credit. Accounts payable of not-for-profit organizations are the same as accounts payable for business enterprises.

Once an accounts payable has been created by an organization, the obligation must be paid regardless of the source of funds. Liabilities such as accounts payable are not classified as unrestricted, temporarily restricted, or permanently restricted.

Example 6 - Recording Accounts Payable

Here is an example of how you would record accounts payable as of the end of a period. Assume that, in example 1c, your NPO had purchased the \$700 worth of supplies on credit rather than paying cash. As in example 1c, assume the \$700 is charged directly or allocated on some basis to four general ledger accounts for four different functions and projects (i.e., departments and grants).

	<u>Debit</u>	<u>Credit</u>
Adjusting entries:		
2010 Accounts payable		\$700
7710-510 Supplies - management & general	\$ 75	
7710-100 Supplies - program A, unrestricted	150	
7710-120 Supplies - program A, contract #101	300	
7710-420 Supplies - program D, grant #204	175	

Example 1d shows how to enter a \$700 check for supplies as a payment of an accounts payable.

	<u>Debit</u>	<u>Credit</u>
Closing entries:		
3010 Unrestricted net assets	\$525	
3310 Temporarily restricted net assets - grant #204	175	
7710-920 Supplies		\$700

7. Recording accrued expense transactions

Just as you recognize a liability for goods and services received from vendors but not yet paid for (accounts payable), you also recognize as liabilities other accrued expenses such

as accrued interest payable and accrued payroll expenses. Accrued expenses of not-for-profit organizations are the same as accrued expenses for business enterprises.

Once an accrued expense has been incurred by an organization, the obligation must be paid regardless of the source of funds. Liabilities such as accrued expenses are not classified as unrestricted, temporarily restricted, or permanently restricted.

Example 7a - Recording Accrued Interest Payable

Here is an example of how you would record accrued interest payable as of the end of a period. Assume that your NPO had a loan outstanding at the end of the reporting period, and the accrued interest since the last loan payment was \$138.

	<u>Debit</u>	<u>Credit</u>
Adjusting entries:		
2150 Accrued expenses - interest payable		\$138
8610-920 Interest - common cost pool	\$138	

Here is how a subsequent interest payment of \$262, made in the next reporting period, would be recorded. Of the \$262, \$124 of the payment would be for interest incurred in the next reporting period and \$138 would be the interest payable that you had accrued at the end of the last period.

	<u>Debit</u>	<u>Credit</u>
Adjusting entries:		
1010 Cash in bank - operating		\$262
2150 Accrued expenses - interest payable	\$138	
8610-920 Interest - common cost pool	124	

Accrued payroll expenses are payroll related expenses that have been incurred but not paid as of the date of the statement of financial position (balance sheet). Accrued payroll expenses include (a) salaries and wages earned but not paid, (b) accrued vacation time and other leave, (c) any other employee benefits that have accrued, and (d) the employer's portion of payroll taxes that have accrued.

Example 7b - Recording Accrued Payroll - Salaries

Here is an example of how you would record accrued payroll expenses involving unpaid salaries as of the end of a period. Assume that your NPO had unpaid salaries and wages, other than officers' salaries, of \$3,400 as of the end of the reporting period. The expense account number for *Other salaries and wages* is 7120-xxx. Accrued salaries and wages must be allocated to various activities on the same basis that such salaries and wages are allocated for each pay period during the year. The basis for such allocations usually involve actual time records and periodic staff time utilization studies. The activities used

below are those used in the illustrative universal trial balance in Section 3 and in the financial reports in Section 8 through 11.

	<u>Debit</u>	<u>Credit</u>
Adjusting entries:		
2110 Accrued expenses - payroll		\$3,400
7120-100 Other salaries - Program A, general	\$100	
7120-120 Other salaries - Program A, contract #101	500	
7120-130 Other salaries - Program A, contract #102	600	
7120-200 Other salaries - Program B, general	100	
7120-220 Other salaries - Program B, contract #101	400	
7120-300 Other salaries - Program C, general	100	
7120-320 Other salaries - Program C, contract #103	700	
7120-420 Other salaries - Program D, grant #204	500	
7120-510 Other salaries - Management & general	200	
7120-710 Other salaries - Fundraising	200	

Here is how the first payroll made in the next reporting period and amounting to \$6,800, would be recorded. \$3,400 of the payroll expenses would be for salaries earned in the next reporting period and \$3,400 would be the accrued payroll for other salaries that had been accrued at the end of the last fiscal year.

	<u>Debit</u>	<u>Credit</u>
Adjusting entries:		
1011 Cash in bank - payroll		\$6,800
2011 Accrued expenses - payroll	\$3,400	
7120-100 Other salaries - Program A, general	100	
7120-120 Other salaries - Program A, contract #101	500	
7120-130 Other salaries - Program A, contract #102	600	
7120-200 Other salaries - Program B, general	100	
7120-220 Other salaries - Program B, contract #101	400	
7120-300 Other salaries - Program C, general	100	
7120-320 Other salaries - Program C, contract #103	700	
7120-420 Other salaries - Program D, grant #204	500	
7120-510 Other salaries - Management & general	200	
7120-710 Other salaries - Fundraising	200	

Generally accepted accounting principles (GAAP) require employers to record a liability for certain accrued vacation leave benefits. To determine your NPO's liability for accrued compensated absences, determine the number of hours of leave for each employee as of the cutoff date. Multiply this number by the appropriate salary or wage rate to determine the accrued leave for each employee. Add accrued leave for all employees to determine total accrued leave.

Example 7c - Recording Accrued Payroll - Leave

Here is an example of how you would record accrued payroll expenses involving accrued vacation time and other leave as of the end of a period. Assume that your NPO had accrued vacation time and other leave for employees other than officers amounting to \$8,600 at the end of the reporting period. The expense account number for *Other salaries and wages* is 7120-xxx. Accrued leave is charged to the related common cost pool, account number 7120-920. For reporting purposes, the leave pool is allocated by function and grant on the basis of a pro rata share of salaries. If at the beginning of the fiscal year your NPO had accrued leave of \$9,600, then your accrued leave has been reduced by \$1,000 and the following entries would be made.

	<u>Debit</u>	<u>Credit</u>
Adjusting entries:		
2110 Accrued expenses - payroll	\$1,000	
7120-920 Other salaries - common cost pool		\$1,000

If on the other hand at the beginning of the fiscal year your NPO had accrued leave of \$7,000, then your accrued leave has been increased by \$1,600 and the following entries would be made.

	<u>Debit</u>	<u>Credit</u>
Adjusting entries:		
2110 Accrued expenses - payroll		\$1,600
7120-920 Other salaries - common cost pool	\$1,600	

Record the expense for accrued compensated absences in accordance with the provisions of any applicable grant agreement. However, when the expenses for accrued leave have been paid to your NPO with grant funds, the liability for those compensated absences is then a liability of your NPO, not of the grantor, and should not be included as an expense to be reimbursed in reports to the grantor.

Example 7d - Recording Accrued Payroll - Taxes

Here is an example of how you would record accrued payroll expenses involving employer's accrued payroll taxes (e.g., FICA, FUTA, SUTA) as of the end of a period. Assume that your NPO had accrued payroll taxes for salaries for employees other than officers amounting to \$4,200 at the end of the reporting period. The liability account number for Accrued expenses - payroll taxes is 2120. The expense account number for *Payroll taxes, etc.*, is 7310-xxx. Accrued payroll taxes are charged to the related common cost pool, account number 7310-920. For reporting purposes, the leave pool is allocated by function and grant on the basis of a pro rata share of salaries.

	<u>Debit</u>	<u>Credit</u>
Adjusting entries:		
2120 Accrued expenses - payroll taxes		\$4,200
7310-920 Payroll taxes - common cost pool	\$4,200	

Here is how the first payroll made in the next reporting period, with employer's taxes amounting to \$8,400, would be recorded. Of the payment, \$4,200 of the payroll tax expense would be for taxes incurred in the next reporting period and \$4,200 would be the accrued payroll taxes that had been accrued at the end of the last fiscal year.

	<u>Debit</u>	<u>Credit</u>
Adjusting entries:		
1011 Cash in bank - payroll		\$8,400
2110 Accrued expenses - payroll taxes	\$4,200	
7310-920 Payroll taxes - common cost pool	4,200	

8. Recording in-kind service and use of facilities transactions

You must have documentation to support the amount and value of all donated services and use of facilities. To record such contributions, you normally debit an in-kind expense account such as 7540-xxx, *Donated professional services*, or 8030-xxx, *Donated use of facilities and utilities*, for the same amount as the related in-kind revenue account. The revenue accounts are 4090-xxx, *Donated services/use of facilities-GAAP*, and 4100-xxx, *Donated services/use of facilities-MATCH*.

Example 8 - Recording Receipt of In-Kind Services

Assume 12 hours were donated to a grant under which in-kind donations could be valued at \$4.50 per hour. However, the donated services did not meet the criteria for recognition under GAAP. The following entries would be made:

	<u>Debit</u>	<u>Credit</u>
4100-100 Donated services/use of facilities - MATCH		\$54
7550-100 Donated services - MATCH	\$54	

9. Recording transactions of receivables due from grantors

Example 9 - Recording Receivables Due from a Grantor

Assume \$500 of unreimbursed grant expenses had been incurred for supplies as of the end of the period. The reimbursement request was completed and sent to the grantor as required.

	<u>Debit</u>	<u>Credit</u>
1070 Grants receivable	\$500	
4512-120 Grant revenue-state-contract #101		\$500

10. Recording refundable advance transactions

Example 10 - Recording a Refundable Advance Due to a Grantor

Assume \$500 of funds advanced by the grantor had not been used by the end of the reporting period, and the grant agreement requires that unused funds be returned to the grantor.

	<u>Debit</u>	<u>Credit</u>
2320 Refundable advances		\$500
4512-120 Government grants - state, contract #101	\$500	

SUBSIDIARY LEDGERS

(examples 11 to 13)

11. Format for an Accounts Receivable Subsidiary Ledger

An accounts receivable subsidiary ledger would list all the individual balances that make up the total balance for the control account in the general ledger. If a subsidiary ledger is used, account number 1030, *Accounts receivable*, would be the control account. The following example represents the activity for one client or customer in the accounts receivable subsidiary ledger. Keep an activity sheet for each account.

ACCOUNTS RECEIVABLE SUBSIDIARY LEDGER

CLIENT NAME John Doe.

ADDRESS 2333 Habakkuk Drive.

Anytown, TN PHONE 555-1010.

Date	Explanation	Debit	Credit	Balance
7/4/X2	One session	\$50		\$ 50
7/11/X2	One session	50		100
7/18/X2	One session	50		150
7/22/X2	Payment received		\$100	50
7/25/X2	One session	50		100

The total balances of the subsidiary accounts should always equal the general ledger control account (in this case, accounts receivable).

The same format would be used for subsidiary ledgers for account number 1070, *Grants receivable*, or account number 1050, *Pledges receivable*. A subsidiary ledger for grants receivable would identify what amount is due from each grantor or grant.

12. Format for an Accounts Payable Subsidiary Ledger

An accounts payable subsidiary ledger would list all vendors to whom money is owed and all the individual balances that make up the total balance for the control account in the general ledger. If a subsidiary ledger is used, account number 2010, *Accounts payable*, would be the control account. The following example represents the activity for one vendor in the accounts payable subsidiary ledger. Keep an activity sheet for each vendor. Each vendor's subsidiary account should be reconciled periodically with invoices or statements to ensure that the balance due to the vendors is accurate.

ACCOUNTS PAYABLE SUBSIDIARY LEDGER

VENDOR NUMBER 0012

VENDOR NAME ABC Office Supplies

ADDRESS 1612 Macedonia Court

Anytown, TN PHONE 555-1000

Date	Explanation	Debit	Credit	Balance
8/5/X2	Office supplies-copy paper		\$125	\$125
8/21/X2	Typewriter		200	325
9/15/X2	Payment	\$125		200
9/30/X2	Toner for copier		75	275
10/15/X2	Payment	275		0

The total balances of the subsidiary accounts should always equal the general ledger control account. Discounts taken should be recorded as reductions in expenses (e.g., 2%, 10 days, net 30 days).

13. Subsidiary ledgers for revenue and expense activity by function or grant

Management often needs detailed information on the revenue and expense activity of a specific function, department, grant, or project. Such information may be necessary to comply with grantor reporting requirements, to determine grant revenues, and to meet other informational needs of management. To meet these needs, management must carefully determine which revenue and expense activities may need subsidiary ledgers. For example, subsidiary revenue and expense ledgers normally are maintained for each grant to facilitate grantor reporting and the determination of revenue